MEMORANDUM

October 17, 1996

TO: Mike McCurry
Barry Toiv
Lorrie McHugh
Mary Ellen Glynn
April Mellody
Larry Haas

FROM: Chris Jennings
Jen Klein

SUBJ: Back-up for President's Statement About Potential Hospital Closings

Attached is background material to justify the President's claim that the Republicans' Medicare cuts "could" have closed 700 hospitals.

We hope this information will be helpful. Please call us if you have any questions.

THE DOLE-GINGRICH BUDGET PUT HOSPITALS AT RISK

AARP:

- In June, 1995, AARP wrote: "Spending cuts could limit access to providers. **[M]any hospitals across the country -- particularly in rural areas -- would be forced to close."** [AARP, 6/29/95]
- In June, 1995, AARP wrote: "[The] Congressional Budget Resolution Could Devastate Medicare Beneficiaries." Dole voted for this budget resolution which cut Medicare by $270 billion -- same as the vetoed budget. [AARP, 6/29/95]
- In November, 1995, AARP wrote that the Dole-Gingrich $400 billion cuts from Medicare and Medicaid "[D]o not meet the fairness test." [AARP, 11/16/95]
- In November, 1995, AARP wrote that under the Dole-Gingrich budget, existing Medicare and Medicaid protections against the high cost of long-term care, "are now at risk" [AARP, 11/16/95]

AHA:

- In summer, 1995, the AHA ran newspaper advertisements saying "Medicare is being reduced... But not only seniors -- everyone will feel the impact... **Needed hospitals in rural or inner-city communities could be forced to shut their doors, period."**
- In October, 1995, AHA wrote a letter to Senator Dole saying the Dole Medicare cuts would mean: **"[R]educations of that magnitude would result not in a reduction in the rate of growth, but in a real cut. That means per beneficiary spending for hospital care grows less than the rate of inflation."** [AHA, 10/16/95]
- In November, 1995, AHA wrote: "Reductions of this magnitude represent a real cut in payments to hospitals, not simply a reduction in the rate of increase. Quality and availability of care will be adversely affected....**Particularly hard hit will be communities with hospitals serving a large proportion of Medicare and Medicaid patients....Almost 700 of the most vulnerable hospitals derive two thirds or more of their net patient revenue from Medicare and Medicaid."** [AHA, 11/95]

American Hospital Association

AHA

Liberty Place
325 Seventh Street, N.W.
Washington, DC 20004-2802

Office of the President

One North Franklin
Chicago, Illinois 60606

October 16, 1995

The Honorable Bob Dole
United States Senate
141 Hart Senate Office Building
Washington, DC 20510

Dear Senator Dole:

You and your Senate colleagues are about to make public policy decisions of truly historic proportions. Your debate and action on the Fiscal 1996 budget reconcillation bill, particularly where Medicare is concerned, will affect the lives of all Americans.

That's why the American Hospital Association, on behalf of its 5,000 members in the community delivering care every day, wants to make you aware of a report by Lewin-VHI, a respected research firm. It analyzes the effect of Medicare spending reductions on hospitals.

The bill now before the U.S. Senate calls for reductions of $86 billion in hospital services. The principal finding of this analysis is that reductions of that magnitude would result not in a reduction in the rate of growth, but in a real cut. That means per beneficiary spending for hospital care grows less than the rate of inflation.

Repeatedly, the American people have been assured that the Medicare program would not suffer real cuts. This is a promise that must be kept. Eighty six billion dollars in reductions will seriously jeopardize the ability of the hospital community to continue to provide high quality care, not only to seniors, but to all our citizens. This is the potential impact of the current Senate proposal.

In its conclusion, Lewin-VHI, Inc., states: "The potential for payment reductions to result in real decline in hospital spending over the next seven years should indicate to policymakers the need to carefully consider the impacts of potential Medicare changes on the different categories of health care providers."

This is what the nation's hospitals ask of you and your colleagues in the critical days ahead.

Sincerely,

Dick Davidson

MEDICARE AND MEDICAID ARE IMPORTANT TO HOSPITALS

- For nearly one in four hospitals, 60% of patient days are Medicare patient days.
- More than 2,300 hospitals (nearly half) have large Medicaid patient loads (15% or more of their inpatient days).
- Almost 700 most vulnerable hospitals derive two thirds or more of their net patient revenue from Medicare and Medicaid -- about 300 of these hospitals derive three quarters or more of their net patient revenue from Medicare and Medicaid.
  - ✓ Nationally, these hospitals represent 13 percent of all hospitals, providing 9 percent of hospital stays including all patients not just Medicare and Medicaid, and contributing 11 percent of all emergency room visits.
  - ✓ 56 percent of these highly vulnerable hospitals are rural; 20% are inner-city hospitals.

Source: American Hospital Association analysis based on data from the 1993 AHA Annual Survey and the Medicare Provider Specific file.

DEAR MEMBER OF CONGRESS

WHAT WILL YOU TELL YOUR VOTERS IF YOU TAKE $250 BILLION OUT OF THEIR MEDICARE?

Some in Congress want to reduce Medicare by more than $250 billion over seven years.

With the largest Medicare reductions in history on the table, now might be a good time to consider how you're going to explain a vote to damage the Medicare system.

Who will be hurt the most? Certainly seniors will be harmed, because their Medicare is being reduced — again. But not only seniors —*everyone* will feel the impact if community hospitals have to reduce their services or close their doors.

A new study by Lewin-VHI, one of the nation's top research firms, finds that with reductions of $250 billion, Medicare could be paying less than 89 cents on the dollar of an elderly patient's stay in the hospital seven years from now.

WHAT WILL HAPPEN TO HEALTH CARE?

These reductions will mean:

- Money-losing but crucial services like trauma care, burn units and ICUs may have to be closed.
- Senior citizens will find it harder to receive the level of care they need as they grow older.
- New life-saving technology that people need could be delayed.
- Innovative community outreach programs that help millions of Americans could get trimmed.
- Needed hospitals in rural or inner-city communities could be forced to shut their doors, period.

Hospitals are successfully controlling costs, but these reductions go beyond what is reasonable. They're going to hurt—not just folks on Medicare, but anyone who may need the high quality care that only a hospital can give. And that will leave some very important people—your voters—looking for answers.

What will you say? We urge you to tell them that you **Reject proposals to reduce Medicare!**

Dick Davidson

Dick Davidson, *President*

AHA American Hospital Association

TOO MUCH, TOO FAST

The Impact on Older Americans of Medicare and Medicaid Reductions in the FY'96 Budget Resolution

Prepared by the
American Association of Retired Persons
June 29, 1995

For further information contact:
Tricia Smith
AARP Federal Affairs Department Health Team
(202)434-3770

- At the highest income categories, beneficiaries would pay triple the amount they now pay for the Part B premium. If the income thresholds for the proposed high-income premium are not indexed, each year a greater percentage of Medicare beneficiaries would be required to pay the new, higher premium. In the future, Congress could simply choose to lower the income threshold, thereby increasing revenues.

- At the same time that an income-related premium would be imposed on Medicare beneficiaries, federal subsidies for health care costs for those under age 65 would continue, regardless of an individual's income. These subsidies come in the form of the tax deduction for employer-provided health insurance. As a result of the savings target under the Budget Resolution, Congress could impose higher health costs on higher-income older Americans but would continue federal subsidies for corporate executives, middle-aged millionaires, and Members of Congress. A May, 1994 Price Waterhouse analysis estimated that reducing federal subsidies for higher-income individuals under age 65 in the same manner as for Medicare beneficiaries would result in federal budget savings that are four times as large as the Medicare income-related premium savings.

7) ***Beneficiary Access to Care could be Jeopardized***

Medicare beneficiaries' access to needed health care could be seriously hurt by the unprecedented reductions in Medicare spending included in the FY 96 Budget Resolution. For the average older American, the $270 billion in Medicare spending reductions will mean:

- Increased Out-of-Pocket Costs That Could Limit *Access to Services*: For the average beneficiary, the proposal to reduce Medicare spending could cost about $3,400 more out-of-pocket over the next seven years in the form of higher premiums, coinsurance and deductibles. For many beneficiaries — particularly those with low incomes — the additional costs are on top of the $2,750 they already pay out-of-pocket for health care in 1995. Older Americans spend roughly 20 percent of their income on health care — nearly three times as much as those under age 65. Increasing out-of-pocket costs could mean that fewer beneficiaries would be able to afford the care they need and many would be forced to wait until a condition worsens and care is even more expensive.

- Spending Cuts That Could Limit *Access to Providers*: As physician payments are reduced, many doctors will try to shift more costs onto Medicare beneficiaries. One likely way for this to happen is through the elimination of the Medicare balance billing limits. This change would allow doctors to charge beneficiaries significantly more than what Medicare approves. If this happens, many older Americans would no longer be able to afford to see their doctors. In other

cases, physicians may find that it is no longer profitable to treat Medicare patients, leaving beneficiaries without access to a doctor. Still other beneficiaries may have to travel long distances for hospital care since many hospitals across the country — particularly in rural areas — would be forced to close.

- Spending Cuts That Could Limit *Access to Health Plans*: The level of spending reductions included in the Budget Resolution could result in substantially higher premiums for beneficiaries who choose to remain in traditional fee-for-service Medicare. Some beneficiaries might no longer be able to afford to stay in fee-for-service and would be forced into managed care.

8) *Medicare Caps could be Imposed*

- Structure

Members of Congress are considering a Medicare spending "cap" as one method for achieving budget savings. Under this approach, yearly spending limits or targets would be established for the Medicare program. This cap could take one of several forms: a total spending limit for the program, a limit on the annual growth rate in the program; or a per capita spending limit. The cap could be fixed in law or determined on a yearly basis.

Annual Medicare spending would then be measured against the cap. Under one approach, known as a "look-back," actual Medicare spending would be compared with the target at the end of each year. If actual spending exceeded the target, then Medicare spending for the following year would be reduced by the amount exceeding the target.

- Impact on Beneficiaries

A Medicare cap would have a direct bearing on Medicare beneficiaries. If Medicare spending exceeds the yearly cap, automatic cuts in Medicare spending would likely translate into higher out-of-pocket costs for Medicare beneficiaries — in the form of higher premiums, coinsurance or deductibles — as well as reductions in payments to hospitals and doctors which would affect beneficiary access to services.

Advocates of a Medicare cap claim that this kind of target is necessary to keep program spending in check. However, for the average beneficiary — who has little control over Medicare program spending — this would mean an even greater out-of-pocket burden for Medicare services.

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(1) This analysis is based on the June 22, 1995 Budget Resolution Conference Agreement.

(2) Increased out-of-pocket costs are averaged across all Medicare beneficiaries.

(3) Out-of-pocket health costs include all health care expenses of non-institutionalized older individuals except those paid by Medicare. Medicare and private premiums, and prescriptions drugs, for example, are considered out-of-pocket costs. Data are based on December, 1993 CBO projections of population subgroups and National Health Accounts data by type of service and payer.

AARP Federal Affairs
6/23/95

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

October 11, 1996

TO: Distribution List

FR: Chris J.

RE: VP Debate

During the debate on Wednesday evening, the Vice-President suggested that the Republican budget plan would have led to cuts in Medicare and Medicaid, and ultimately "could have closed 700 hospitals." The American Hospital Association (AHA) called me last night to advise me that the Republicans are contacting news organizations to use this quote as an example of the "exaggerations" the Clinton Administration is making about their Medicare/Medicaid reforms.

The fact is that the American Hospital Association does have a document (enclosed) which explicitly says: "700 most vulnerable hospitals derive two thirds or more of their net patient revenues from Medicare and Medicaid." The AHA has informed me that they will tell reporters that, while they cannot project closures, they can understand why the Vice-President said what he did. They believe that the magnitude of cuts proposed by the Republicans would put these 700 hospitals "at risk."

I hope you will find this information useful. Please call me at 456-5560 with any questions.

MEDICARE AND MEDICAID ARE IMPORTANT TO HOSPITALS

- For nearly one in four hospitals, 60% of patient days are Medicare patient days.
- More than 2,300 hospitals (nearly half) have large Medicaid patient loads (15% or more of their inpatient days).
- Almost 700 most vulnerable hospitals derive two thirds or more of their net patient revenue from Medicare and Medicaid -- about 300 of these hospitals derive three quarters or more of their net patient revenue from Medicare and Medicaid.
  - ✓ Nationally, these hospitals represent 13 percent of all hospitals, providing 9 percent of hospital stays including all patients not just Medicare and Medicaid, and contributing 11 percent of all emergency room visits.
  - ✓ 56 percent of these highly vulnerable hospitals are rural; 20% are inner-city hospitals.

Source: American Hospital Association analysis based on data from the 1993 AHA Annual Survey and the Medicare Provider Specific file.

percent. We should double the rate of growth and double the size of American economy. This means more jobs, more wealth, more income and more capital, particularly for our nation's poor and those left behind.

GORE: Mr. Lehrer, our balanced budget plan extends the Medicare Trust Fund ten years into the future. A commission is fine, but a commission would not do any good if we adopted this risky $550-billion tax scheme. The word "scary" has been used. A couple of days ago I went with Governor Lawton Chiles, who was here, to Sarasota to the Friendship Senior Center. I talked with a woman there named Dorothy Wornell and she said, "You know, we may not be as sophisticated as some of those people in Washington, but we can add and subtract." Here are the numbers she's adding and subtracting. Bob Dole's plan would have already imposed an extra $268 on the average Medicare receiving couple, and his plan would have doubled deductibles. It would have cost an extra $1,700 over the lifetime of his plan and eliminated nursing home standards and guarantees of nursing home care for seniors. Bill Clinton prevented it from happening. We will never allow that to happen.

KEMP: Jim, Medicare is too important to senior citizens around this country to play the type of politics that is being played on this issue. It is losing $8 billion as we stand here tonight. By the President's own trustees of Medicare, three members of which serve in his cabinet, it will be losing $23 billion a year by 1998. Something must be done. Bob Dole is -- has suggested a commission, but, clearly, you cannot save Medicare, Social Security, or any program for the social welfare net of American people, under which they should not be allowed to fall, unless we grow this economy at least twice the rate it is growing today. That is the issue, not scaring people in America.

LEHRER: Mr. Vice President, Mr. Kemp has accused you of demagoguery.

GORE: Well, as I said before, he used much harsher language when he talked about Bob Dole. He said that Bob Dole's solution for every single problem was to increase taxes. He said just two years ago that the Bob Dole tax increase of 1982 was the largest tax increase in the history of the world, but let's get to the point. Medicare has been adjusted 23 times since it was created in 1965. Bob Dole, incidentally, just bragged this year that he was one of only 12 people who voted against the creation of Medicare in the first place. I don't think he's -- he didn't believe in it then, and the plan that he promoted last year would have certainly been devastating to Medicare. Again, don't take my word for it. The American Hospital Association said it could have closed 700 hospitals. The Catholic Health Association, the AARP, and many other groups who pay careful attention to Medicare said that the Dole/Gingrich plan on Medicare would have led to deep cuts, possibly set up a two-tiered system, and would have ended the kind of Medicare system that we have. Our plan extends Medicare ten years into the future. We will always protect Medicare within the context of a balanced budget plan.

KEMP: Folks, they have no plan. They have absolutely no plan. The President himself suggested that the reduction in the growth of Medicare over the next five or six years ought to be held to 6 percent under the Republican plan, irrespective of the numbers, it will grow at 7 or even more percent, but that is beside the point. What has to be discussed is how we, as a nation, are going to create the size of average economy, create a national wealth that would at least double this 6 or 7 trillion economy. We would have $6 trillion in 15 years extra wealth for the American people. Another trillion dollars of revenue, with which to save Medicare and Social Security. And you can't do it with a tax code and a regulatory code and people suing each other with frivolous suits, as this administration is allowing to happen. That has to change, and it will under Bob Dole and Jack Kemp.

GORE: I think Mr. Kemp has unintentionally made a mistake in saying that President Clinton called for reduction of -- to 6 percent or whatever you said. I believe you were referring to the "Money" magazine

THE IMPACT OF
THE BUDGET BILL ON HOSPITALS

- Under the conference agreement, reductions in Medicare payments to hospitals would total about $96 billion--$78 billion in "traditional" reductions in Medicare payments to hospitals and an additional $18 billion from the "failsafe" provision.

  - ✔ **On average, hospitals would be paid $1,025 less per admission over the 1996-2002 period than they would under current law, a reduction of roughly 13 percent.**

- **Reductions of this magnitude represent a real cut in payments to hospitals, not simply a reduction in the rate of increase.** Quality and availability of care will be adversely affected.

  - ✔ According to a study by Lewin-VHI, 7-year reductions of more than $75 billion result in a real cut in Medicare payments to hospitals--not simply a reduction in the rate of growth.

  - ✔ The September 1995 Lewin-VHI report states that with 7-year reductions of $100 billion--only slightly more than the conference agreement--payments to hospitals would rise only 2.4 percent per beneficiary per year. This is almost a full percentage point less per year than general inflation, expected to rise at 3.3 percent per year.

  - ✔ **While politicians may choose to ignore the effects of inflation, hospitals don't have the freedom to do so.** Prices of food, drugs, heat and air conditioning, x-ray film and other items that hospitals purchase go up each year, and nurses and other employees expect pay increases that keep up with inflation.

  - ✔ Moreover, the 3.3 percent **forecasted increase in general inflation does not include the additional costs of innovations in medical technology** which often add to expenses as hospitals upgrade and add equipment in order to provide the most advanced medical care. If these price increases were taken into account, the cuts would be even deeper.

- The Congressional leadership has asserted that under the budget bill, Medicare spending overall would grow from $4,800 per beneficiary in 1995 to $6,700 per beneficiary in 2002; an increase of 40 percent.

  - ✔ According to the Lewin-VHI study, with reductions of $100 billion, Medicare hospital spending would grow from $2,420 per beneficiary in 1995 to only $2,860 per beneficiary in 2002.

  - ✔ **That is, per beneficiary spending for hospital services would grow only 18 percent compared to a 25 percent increase in inflation during the same years.**

- In combination with the Medicaid reductions included in the bill, hospitals will have a difficult time meeting the needs of the community. Particularly hard hit will be communities with hospitals serving a large proportion of Medicare and Medicaid patients.

  - ✔ For nearly one in four hospitals, 60 percent of patient days are Medicare patient days.

  - ✔ More than 2,300 hospitals (nearly half) have large Medicaid patient loads (15 percent or more of their inpatient days).

  - ✔ Almost 700 most vulnerable hospitals derive two thirds or more of their net patient revenue from Medicare and Medicaid--about 300 of these hospitals derive three quarters or more of their net patient revenue from Medicare and Medicaid.

- Nationally, the most vulnerable hospitals (those that derive two-thirds or more of their net patient revenue from Medicare and Medicaid) represent 13 percent of all hospitals, provide 9 percent of all hospital stays, not just Medicare and Medicaid, and treat 11 percent of all emergency room visits.

  - ✔ 56 percent of these highly vulnerable hospitals are rural; 20 percent are inner-city hospitals.

- In many States, these most vulnerable hospitals play an even greater role in their communities.

  - ✔ In New York: the most vulnerable hospitals provide nearly one in four of all hospital stays and 29 percent of all emergency room visits.

  - ✔ In Texas: they represent 35 percent of all hospitals, treat one in four emergency room visits, and provide 21 percent of all hospital stays.

  - ✔ In Oklahoma: they provide 15 percent of all hospital stays and treat nearly 20 percent of all emergency room visits.

  - ✔ In California: they provide 12 percent of all hospital stays and treat 15 percent of emergency room visits.

  - ✔ In West Virginia, Missouri, Kansas, and Oklahoma: 22 percent of all hospitals derive two-thirds or more of their net patient revenue from Medicare and Medicaid.

This letter was sent to all Senators and Representatives of the US Congress

AMERICA'S HOSPITALS AND HEALTH SYSTEMS

November 17, 1995

Dear:

The undersigned national, state and metropolitan organizations, representing more than 5,000 hospitals and health systems nationwide, cannot support the conference report on H.R. 2491, the budget reconciliation bill. Our reason is straightforward: as it stands, this legislation, viewed in its entirety, is not in the best interest of patients, communities and the men and women who care for them.

Hospitals and health systems support the stated goals of the conference report -- a balanced budget, a strengthened Medicare trust fund and restructured, more efficient Medicare and Medicaid programs. In fact, we have offered several concrete and reasonable alternatives to achieve these goals without significantly reducing the quality or availability of patient care. For the most part, these alternatives were rejected.

In this long budget debate, America's hospitals and health systems have been guided by principles based on ensuring good patient care now and in the future:

- The health care protection for our nation's most vulnerable populations -- the elderly, the poor, the disabled and millions of children -- is inadequate.

- The tools which could enable hospitals and health systems to continue to provide high quality care to beneficiaries in the new Medicare marketplace are insufficient. The necessary tools were included in the House-passed Medicare Preservation Act, but were significantly diluted during the conference process.

- We have consistently stated that the budget reductions in Medicaid and Medicare remain too deep and happen too fast. Hospitals and health systems are willing to shoulder a fair share of the reductions needed for a balanced budget. But the reductions in the conference report will jeopardize the ability of hospitals and health systems to deliver quality care, not just to those who rely on Medicare and Medicaid, but to all Americans.

Although we cannot support the conference report, we stand ready to work with Congress and the Administration on a fair approach to reducing spending, balancing the budget and protecting the availability and quality of patient care.

Sincerely,
(see attached)

Akron Regional Hospital Association

Alabama Hospital Association

American Hospital Association

American Osteopathic Healthcare Association

AmHS/Premier

Arizona Hospital and Health Care Association

Arkansas Hospital Association

Association of Delaware Hospitals

California Association of Hospitals and Health Systems

Catholic Health Association

Colorado Hospital Association

Connecticut Hospital Association

Dallas-Fort Worth Hospital Council

Delaware Valley Hospital Council

District of Columbia Hospital Association

Florida Hospital Association

Georgia Hospital Association

Greater Cincinnati Hospital Council

Greater Cleveland Hospital Association

Greater Flint Area Hospital Assembly

Greater Houston Hospital Council

Greater Oklahoma City Hospital Council

Greater San Antonio Hospital Council

Healthcare Association of Hawaii

Healthcare Association of Southern California

Hospital Association of Central Ohio

Hospital Association of New York State

Hospital Association of Pennsylvania

Hospital Council of East Central Michigan

Hospital Council of Greater Milwaukee

Hospital Council of Northern and Central California

Hospital Council of San Diego and Imperial Counties

Hospital Council of Western Pennsylvania

Idaho Hospital Association

Illinois Hospital and Health Systems Association

Indiana Hospital Association

InterHealth

Kansas Hospital Association

Kansas City Area Hospital Association

Kentucky Hospital Association

Louisiana Hospital Association

Maine Hospital Association

Maryland Hospital Association

Massachusetts Hospital Association

Metropolitan Hospital Association of New Orleans

Metropolitan Chicago Healthcare Council

Michigan Health and Hospital Association

Minnesota Hospital and Healthcare Partnership

Mississippi Hospital Association

Missouri Hospital Association

Montana Hospital Association

Nassau-Suffolk Hospital Council

National Association of Public Hospitals

Nebraska Association of Hospitals and Health Systems

New Jersey Hospital Association

New Mexico Hospitals and Health Systems Association

New Hampshire Hospital Association

North Carolina Hospital Association

Nevada Association of Health Systems and Hospitals

North Central Council of the Michigan Health and Hospital Association

North Dakota Hospital Association

Northeastern New York Hospital Council

Northern Metropolitan Hospital Association

Ohio Hospital Association

Oklahoma Hospital Association

Oregon Association of Hospitals and Health Systems

Rochester Regional Hospital Association

South Carolina Hospital Association

South Central Michigan Hospital Council

South Dakota Hospital Association

South Florida Hospital Association

Southeast Michigan Hospital Council

Southwestern Michigan Hospital Council

SunHealth

Tampa Bay Hospital Association

Tennessee Hospital Association

Texas Hospital Association

Utah Association of Healthcare Providers

Vermont Hospital Association

VHA Inc.

Virginia Hospital and Healthcare Association

Volunteer Trustees of Not-for-Profit Hospitals

Washington State Hospital Association

West Virginia Hospital Association

Western New York Healthcare Association

Wisconsin Hospital Association

Wyoming Hospital Association

American Hospital Association

AHA

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NEWS RELEASE

FOR IMMEDIATE RELEASE
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William Erwin (202) 626-2284

NEW PROVIDER COALITION CALLS ON CONGRESS TO PRESERVE MEDICAID AS A FEDERAL ENTITLEMENT

WASHINGTON (February 2, 1996) -- The American Hospital Association today joined a coalition of health care provider organizations opposing any Medicaid proposal that does not preserve the program as a federal entitlement, particularly a block grant approach that lacks a federal guarantee to meaningful benefits for our most vulnerable populations.

In a letter to each member of Congress, the coalition said, "As providers of health care to these people, we stand united in our support for a reformed Medicaid that allows states more flexibility in the design and administration of their programs. We are also unified, however, in our strong opposition to excessive reductions in funding, and radical restructuring of the program that could jeopardize peoples' access to health care and our ability to provide it."

The American Association of Homes and Services for the Aging, the American Health Care Association, the Association of American Medical Colleges, and the National Association of Home Care joined AHA in signing the letter. The organizations said they would oppose any Medicaid restructuring proposal that does not meet the following principles:

- **Preservation of the Medicaid entitlement** -- "Fifty states defining and enforcing eligibility to a widely varying benefits package would break this nation's 30-year national health care safety-net commitment."

(more)

- **Continued federal financial responsibility for Medicaid** -- "A block grant approach would eliminate the responsibility of the federal government and, in economic downturns, would force states to reduce coverage, slash reimbursement and/or raise taxes."

- **Continued state financial responsibility for Medicaid** – "State matching rate changes that reduce the minimum Medicaid contribution by states would take additional billions out of the health care system."

- **A financial environment in which providers can continue to serve Medicaid and private patients** – Continuing, by law, to ensure that provider payments are adequate, and that states' ability to shift the financing burden to providers is limited, will "enable providers to continue our commitment to serving all who come through our doors."

A copy of the letter is attached.

The AHA is a not-for-profit organization of health care provider organizations that are committed to health improvement in their communities. The AHA is the national advocate for its members, which include 5,000 hospitals, health care systems, networks, and other providers of care. Founded in 1898, AHA provides education for health care leaders and is a source of information on health care issues and trends.

-30-

February 1, 1996

Dear Representative:

As you struggle to balance the Federal budget, it is important to never lose sight of the critical role the Medicaid program plays in caring for more than 35 million of our most vulnerable populations, including the elderly, people with disabilities, pregnant women, and children.

As providers of health care to these people, the undersigned organizations stand united in our support for a reformed Medicaid program that allows states more flexibility in the design and administration of their programs. We are also unified, however, in our strong opposition to excessive reductions in funding, and radical restructuring of the program that could jeopardize people's access to needed care and our ability to provide it. Block grants that have no Federal guarantee of access to health coverage and meaningful benefits for our most vulnerable populations, no Federal requirement that states spend grant dollars on the provision of health services, no Federal requirement that states maintain their financial commitment to funding the program, and no Federal requirement to assure access to quality services through provider payment safeguards, are examples of radical restructuring that the provider community finds unacceptable.

While savings necessary to help balance the budget are achievable, they need not and should not come at the expense of eliminating our longstanding national commitment to a Federal health care entitlement for all categories of vulnerable Americans covered under the Medicaid program. We oppose any Medicaid restructuring proposal that does not meet the following principles:

- **Preservation of the Medicaid Entitlement.** The Federal eligibility entitlement to a set of nationally-defined benefits must be maintained. Fifty states defining and enforcing eligibility to a widely-varying benefits package would break this nation's 30-year national health care safety-net commitment.

- **Continued Federal Financial Responsibility for Medicaid.** The Federal government should continue to be a responsive financing partner with the states when they suffer unexpected periods of recession and inflation. A block grant approach would eliminate the responsibility of the Federal government and, in economic downturns, force states to reduce coverage, slash reimbursement and/or raise taxes.

-- **Continued State Financial Responsibility for Medicaid.** The states' longstanding financial partnership in funding the Medicaid program should also be maintained. State matching rate changes that reduce the minimum Medicaid contribution by states would take additional billions out of the health care system. Obviously, a cut of this magnitude could force states to deny coverage for millions of Americans. This would result in a significant increase in uncompensated care to a health care system already overburdened by over 40 million uninsured Americans.

-- **A Financial Environment in which Providers Can Continue to Serve Medicaid and Private Patients.** Although we understand the desire for additional flexibility for states, we believe that there are a number of provisions being considered by Congress and the Administration that may severely harm providers. They include repealing current law that contains provider payment safeguards that assure access to quality services through adequate payment, and safeguards for providers that limit a state's ability to shift the financing burden for the program to providers through such mechanisms as provider taxes. Protecting these laws will enable providers to continue our commitment to serving all who come through our doors.

Block grant approaches that would totally repeal the current Medicaid statute and do not include the Federal guarantees we have outlined do not meet our principles. Proposals that limit Federal spending on a per beneficiary basis and preserves the Federally entitlement do meet our principles. What is more, they achieve our principles without undermining the national commitment to a health care safety net and without going backward in providing desperately needed coverage to millions of Americans.

As we stand at the brink of the new millennium, it is our collective responsibility to restore our nation's fiscal strength while maintaining our compassion. A viable Medicaid program will help us meet that challenge.

American Association of Homes and Services for the Aging
American Health Care Association
American Hospital Association
Association of American Medical Colleges
National Association for Home Care

Balanced Budget

- Today, I submitted my fiscal year 1997 budget. It is the first balanced budget submitted by a President in 17 years that reaches balance based on Congressional Budget Office numbers.

- My budget reflects America's values. It protects Medicare and Medicaid, education and the environment, and it provides tax relief for working families. It will help lower interest rates, create jobs, and invest in our future.

Medicare and Medicaid

- We need to balance the budget, but not by placing Medicare and Medicaid at risk. And, as I have shown, we don't have to do that. The combined total of the savings that Republicans and Democrats can agree on is more than enough to balance the budget in seven years using CBO numbers.

- Their Medicare cuts are $44 billion, or 33%, higher than what I have proposed and their Medicaid cuts are $26 billion, or 45%, higher. We don't need these additional cuts to balance the budget or to strengthen the Medicare Trust Fund beyond 2010.

- The differences between my plan and the Republican plan go beyond the numbers.

    - They would raise costs for Medicare beneficiaries. I have said from the beginning of this debate that I will not do that to older Americans, 75% of whom have incomes below $25,000 a year. They would raise premiums, and allow balance billing in some plans. And they would repeal the guarantee that Medicaid pay Medicare premiums, deductibles and copayments for poor older and disabled Americans -- which could force many to lose physician coverage.

    - We agree that Medicare beneficiaries should be given more choices -- including preferred provider organizations and HMOs with point of service options. But their proposal would transform Medicare into a program of plans whose first priority would be to compete for healthy people -- leaving older, sicker Americans at risk.

    - And the Republicans would end the guarantee to meaningful benefits under Medicaid and replace it with an underfunded block grant. This would put states at risk during economic downturns, periods of inflation, and demographic changes -- giving them little choice but to reduce coverage, raise taxes or slash reimbursement.

DRAFT TALKING POINTS (MARILYN YAGER, CHRIS JENNINGS, BT)
AMERICAN HOSPITAL ASSOCIATION ANNUAL MEETING
JANUARY 29, 1996

- Thank you Duane Dauner for your kind introduction.

- And thank you all for inviting me to be here on behalf of the President. I want to extend to you his appreciation for your dedication and commitment to making America's healthcare system the best in the world. As the husband of a nurse and the father of a physician, I am well aware of the small miracles that are performed daily in your hospitals and health clinics.

- You have been an integral part of the debate around the budget and our efforts to protect the integrity of the Medicaid and Medicare programs. The President's commitment to the Medicare and Medicaid programs do not diminish his belief that we have within our grasp an opportunity to balance the budget, and it is in your interest, as well as all Americans, that we continue these deliberations.

- The American people deserve a balanced budget, but for you especially, your hospitals need the certainty of knowing what changes, what reforms, what savings are going to be enacted. I don't see how you can plan if we leave the balanced budget debate in the kind of limbo the Republicans now seem willing to accept.

- Though differences between the Republican leadership and the President remain, and they are significant, the combined total of the proposed savings that are common to both plans is more than enough to balance the budget in seven years using the Congressional Budget Office numbers.

- The Republican leadership should not wave the white flag of surrender. For twelve years, the white flag flew over the Capitol and the White House as deficits climbed and the national debt quadrupled. In 1993, the President and a Democratic Congress took dramatic action that has resulted in deficits being cut in half.

- This Republican Congress deserves credit for beginning the work of finishing that job and balancing the budget. Now, they have let their more extreme ideological goals, which the President and other Democrats reject -- potentially dangerous structural changes in Medicare and Medicaid, deep cuts in education and environmental protection, and a very large tax cut tilted towards those who do not need it -- get in the way of accomplishing the goals that we **do** share -- balancing the budget, securing the Medicare Trust Fund, and providing a modest tax cut to working families.

- If they are sincere when they say that a balanced budget in seven years, using CBO scoring, is their primary goal, along with a tax cut, then we are there. The President's door is open, and we ought to get the job done.

- Let me talk briefly about the specific issues that directly concern you.

- First, Medicare. Some try to paint the $44 billion difference between the President's $124 billion in Medicare savings and the $168 billion advocated by the Republicans as insignificant. No one knows better than you that a 33-percent greater cut is significant and could have devastating consequences to your hospitals and the patients you serve. What's more, additional cuts are not necessary, either to balance the budget or to strengthen the Medicare Trust Fund to approximately 2010.

- But this isn't just about numbers, it's about policy, and literally the future of Medicare. All Americans should be concerned about the structural changes the Republicans want to make to Medicare. You know of our concerns that the Republican plan would transform Medicare into a program of plans whose first priority would be to compete for healthy people, not care for sick older Americans. Their high-deductible Medical Savings Account proposal is just one such example.

- But one proposal that has not yet received the same amount of attention, which has an even more direct financial impact on you, is the Republican failsafe budget cap. This budget mechanism, which would make additional cuts to the program if costs exceed current projections, is a wolf in sheep's clothing for hospitals. With this cap, if inflation increases unexpectedly and through no fault of your own, you and your patients will be left holding the bag. If the cap had to be invoked, it would mean that the $44 billion difference between us is even greater. We believe their arbitrary cap is unfair and unwise, and as far as the President is concerned, it is unacceptable.

- Let's make one thing clear, though. The President does not simply want to preserve the status quo. Medicare needs to be modernized for the challenges of the 21st century. That is why his balanced budget plan includes a wide range of new plan choices -- including the Provider Service Organization option on which we have been working so closely with you. The difference between his concept of choice and the Republicans' is that the President wants the new plan options to compete on quality, affordable services -- not by cherry picking healthy populations. It has clear to us from our meetings with your representatives that you, too, share this vision.

- With regard to Medicaid, once again, there are some who attempt to minimize the number and policy differences between the President and the Republican Congress. First, the numbers: the Republicans are now suggesting Federal Medicaid cuts of $85 billion -- 45 percent more than the $59 billion proposed by the President. The numbers are obviously significant. But it is when you look at the total dollar and policy impact that you realize how great a difference there really is.

- First, under the Republican block grant, the Federal financial partnership with the states is eliminated. In the event of an unexpected economic downturn, the financial burden would be squarely on the states, their taxpayers, Medicaid

recipients and providers. According to the Center for Budget and Policy Priorities, a 1% increase in inflation above current CBO projections would place a staggering $65 billion of unanticipated costs squarely on the shoulders of states and local governments over the next seven years. States would have little choice but to reduce coverage, raise taxes, and/or slash reimbursement. You would lose under any scenario. We all would lose.

- Second, under the Republican block grant approach, they propose to allow the states to significantly reduce their matching dollars to receive the same Federal dollars. We know the States are under incredible financial pressures. How could they resist the temptation of reducing their financial commitment? If they did make those cuts, the effective Medicaid cut would not be $85 billion but far greater -- as much as $200 billion more. Less state money, combined with less Federal money, simply means fewer resources for you to do your already difficult jobs.

- These cuts and the block granting of Medicaid would effectively eliminate coverage for millions of Medicaid patients. Would they stop showing up in your hospitals? Of course not. They would still need care. They would simply add to your already overutilized emergency rooms and add to your uncompensated care burden.

- This President is not going to preside over radical changes to the health care system that would add to the over 40 million Americans who are now uninsured. These are our most vulnerable Americans -- children, the elderly, the disabled.

- It's been a long three years when it comes to health care, and we won't forget the role hospitals played during the health reform debate to move towards universal coverage. It seems strange to now be in the fight of our lives to maintain adequate coverage and quality oversight in programs like Medicare and Medicaid -- to be in danger of adding to the number of uninsured, rather than trying to subtract from it.

- The President cares about these Americans, and you do as well. We have appreciated your past help on this issue and we hope we can count on you in the future.

- We cannot and should not minimize our health care and budget differences with the Republicans. However, there is much we can agree on. We can significantly slow Medicare's growth, strengthen the Medicare Trust Fund, and provide more choices to Medicare beneficiaries. We can provide unprecedented flexibility to states in administering their Medicaid programs, while constraining the program's growth. And we can do all this while balancing the budget in seven years.

- And we all can and should move forward on insurance reforms. You won't find a Republican or Democrat to publicly oppose the type of insurance reforms the President outlined in the State of the Union address and that are contained in legislation that was unanimously approved by the Senate Labor Committee.

- Americans ought to be able to buy health insurance policies that they do not lose

when they change jobs or someone in their family gets sick. We have to do more to make health care available to every American and a good place to start is the bipartisan bill sponsored by Senators Kassebaum and Kennedy that would require insurance companies to stop dropping people when they switch jobs, and stop denying coverage for pre-existing conditions.

- News reports say that a few conservative Republican senators have been using Senate rules to block this legislation without having to own up to it. I say to those Senators, allow the Kassebaum-Kennedy bill to see the light of day. If you oppose it, have the courage to debate it on the floor of the United States Senate. For God's sake, we have a chance to do something positive for the American people that has bipartisan support. Let's get it done. Let's help to restore the faith of the American people that Republicans and Democrats can work together on common goals, even if we have different visions. And let's do it by working with the people, such as the people in this room, who know the system and its faults and strengths.

- Let me close by congratulating the NOVA winners who I understand were recognized earlier this afternoon. Last Tuesday night, the President talked about the need for our country to pull together. He said, "working together as a community, as a team, as one America, with all of us reaching across these lines that divide us...we have to reach across it to find common ground...each of us must hold high the torch of citizenship in our own lives. None of us can finish the race alone." He talked about the heroes that make our communities work. These individuals and their institutions, these NOVA winners, are the kind of heroes that the President referred to. The creativity, commitment, and compassion that the NOVA winners have demonstrated are goals we all can try to achieve, and they are exactly the point.

- Thank you.